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REPORT ON UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

Prepared by the UNCTAD secretariat

Executive summary

Critical developments in the Palestinian economy during 2000-2001 have exposed long-standing structural weaknesses, which have been aggravated by sharp declines and widespread disruption in economic activity over the period. A high and volatile rate of unemployment, a chronic trade deficit and a widening gap between investment needs and national savings reflect persistent imbalances, which have been reasserted during the recent crisis. While some significant structural changes have occurred over the decade, these were not paralleled by notable improvement in the domestic economy's supply capacity, undermining its ability to create enough jobs for its labour force, produce enough exports to pay for imports and generate savings for financing investments. Furthermore, the weak contribution of domestic sources to growth of national income increases the economy's vulnerability to external shocks.

Despite the progress in institution building, regulatory reform and economic policy formulation made during the 1994-1999 interim period ushered in by the Israel-Palestine peace accords, over nine months of economic crisis have reversed many of these gains. In addition to losses of at least a quarter of national income and damage to economic and trade infrastructure, the crisis has resulted in sharp falls in Palestinian household income, massive unemployment and increasing poverty. The Palestinian Authority will need to elaborate swiftly a programme of recovery and reconstruction in the context of a sustained economic policy formulation process. While UNCTAD technical assistance to the Palestinian people has attempted to respond to some of the new needs generated by the crisis in the trade and related services sectors, it has maintained a focus on long-term capacity building efforts. Operational activities aim to match the secretariat's core technical competencies with the development needs of the Palestinian Authority and targeted donor finance. In doing so, the secretariat has further strengthened its cooperation with concerned international agencies and donors in providing concrete assistance to the Palestinian people.

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Chapter I

DEVELOPMENTS IN THE PALESTINIAN ECONOMY, 2000-2001

A. Persistent structural weaknesses

1. Developments in 2000-2001 have not only had a debilitating impact on all economic and social sectors of the occupied Palestinian territory but have also exposed some underlying structural weaknesses in the Palestinian economy which have confounded its sustained development for many years.[1] The recent crisis has served to focus attention again on these key weaknesses and the adverse development path that they imply for the Palestinian economy. Pursuing a recovery begun in late 1997, the Palestinian economy enjoyed vigorous growth in 1998-1999, with real gross domestic product (GDP) estimated to have grown by 6 per cent in 1999.[2] Real per capita gross national income (GNI) growth was estimated at 3.5 per cent, bringing per capita GNI to $1,965. GDP and GNI growth had been projected to continue in 2000, albeit at lower levels, and it appeared for a brief moment during that year that the economy was set on a more sustainable path of growth.

2. However, the Palestinian economy during the interim period continued to feature chronic imbalances. Previous reports and studies by UNCTAD have analysed deep-seated and persistent structural problems facing the Palestinian economy.[3] Insufficient job-creation, a low savings rate and poor export performance all point to chronic weaknesses on the supply-side of the economy, which perpetuates excessive reliance on the Israeli economy. This in turn makes the Palestinian economy particularly vulnerable to external shocks and undermines efforts to establish a more stable macroeconomic environment, necessary for the emergence of a sustainable growth path.

3. Despite the progress in institution building, regulatory reform and economic policy formulation made during the 1994-1999 interim period ushered in by the Israel-Palestine peace accords,[4] the findings of previous research appear even more pertinent in the light of recent developments. The interplay between long-standing constraints and new pressures may be illustrated in several aggregate indicators, which portray the continuing Palestinian economic predicament and highlight the vulnerability of the economy to external shocks, such as those experienced in 1991, 1994, 1996 and again in 2000 (see table 1):

- The imbalance between the supply of and demand for labour, as reflected in the volatile unemployment rate, which rose sharply at critical points during the interim period and had begun to sustain a decline until the crisis generated thousands of new unemployed overnight. Coupled with the high proportion of the labour force that is employed in Israel, the weak absorptive capacity of the domestic economy is further underlined.

- The sustained imbalance in external trade and payments, with a trade deficit that has increased steadily before and during the interim period, to the equivalent of over half of domestic product. While less vulnerable to the impact of external shocks than unemployment, the trade deficit remains powered by a weakening export capacity and unrestrained consumption patterns encouraged by a relatively open import structure.

- The incapacity of the economy to generate adequate national savings to meet public and private investment needs, as reflected in the growing gap between national savings and investment.

4. With the high degree of uncertainty generated by these structural problems, compounded by the impact of prolonged occupation, strife and the transitional nature of interim period arrangements, investment in productive activities has remained weak. The low level of capitalisation that continues to impede the development of the industrial base is in contrast to the significant share of gross capital formation, equivalent to a third of GDP and mainly constituted by private investment. Investment continues to be heavily concentrated in construction activity, especially for residential purposes, continuing trends that emerged in the 1980s with the growing role of external sources of income.[5]

5. The slow implementation of public investment infrastructure projects has also discouraged the Palestinian private sector and foreign investors from undertaking capital-intensive projects in the productive sector. Foreign direct investment (FDI) has remained limited over the interim period, notwithstanding some initiatives, mainly by Palestinian expatriate investors, that produced some short-term yields but limited strategic commitment in an uncertain environment. Despite the range of incentives offered to foreign investors (long tax holidays, investment guarantees, national treatment and free repatriation of capital), FDI is concentrated in construction, real estate and tourism sectors.

6. Notwithstanding the persistence of imbalances, some significant structural changes have taken place during the interim period, in particular a marked decrease in the share of the agricultural sector of GDP, coupled with growth in the share of industrial output.[6] Recovery in the industrial sector and reinvigorated growth in services, especially in tourism-related branches, helped to spur GDP growth from 1997, while unemployment fell to 12 per cent from 24 per cent in 1996. The trade deficit had stabilized, albeit at a very high level. However, the supply capacity of the domestic economy remained constrained.[7] GDP's limited contribution to national income reflects a continued reliance on the export of labour services, almost wholly to Israel, for stimulating growth.[8]

7. These internal constraints aside, the Palestinian economy's uneven performance has been increasingly associated with the trade regime governing the economy, based on the Israeli-Palestinian "Protocol on Economic Relations" and the implementation shortcomings it faced during much of the interim period. Needless to say, the Protocol, which shares many features of a customs union, has allowed the Palestinian economy to reap some benefits, as pointed out in UNCTAD reports since 1994. However, its operation beyond the transitional period for which it was conceived imposes strict parameters on the trade and development options available to the Palestinian economy, by locking in distortions in the quantities and sources of Palestinian imports and maintaining high levels of Palestinian prices and tariffs.

8. The interim period arrangements encouraged a skewed integration of the economy with the more advanced and higher-income Israeli economy, as manifested in the scale and channels of concentration of trade with Israel. Meanwhile, newly created Israeli-Palestinian commercial interests within the interim customs union have sometimes favoured tendencies towards largely unproductive, rent-seeking activities.[9] Coupled with cumbersome customs, overland transport and clearance procedures, as well as poor physical infrastructure, industrial competitiveness is further undermined by inflated transaction costs.

Table 1

Palestinian economy (West Bank and Gaza Strip) - Main aggregate economic indicators 1993-2000

YEAR	1993	1994	1995	1996	1997	1998	1999	2000
Generation of resources				*Current million US$*				
Gross domestic product (GDP)	2759	2624	3112	3413	3882	4156	4622	*3986*
Net factor income	620	575	500	469	512	855	879	*564*
Gross national income (GNI)	3380	3199	3612	3882	4394	5011	5501	*4550*
Net current transfers	278	559	349	594	340	372	268	*400*
Gross national disposable income (GNDY)	3657	3758	3961	4476	4734	5383	5769	*4950*
Use of resources								
Consumption	3068	3334	3510	4297	4724	4921	5362	*4983*
Investment	655	960	1195	1177	1417	1684	1849	*1594*
National savings	589	424	451	179	10	462	407	*-33*
National savings - Investment	-66	-535	-744	-999	-1407	-1222	-1441	*-1627*
Trade balance	-964	-977	-1401	-1856	-2074	-2439	-2588	*-2600*
Memorandum items				*Thousands*				
Population	2090	2060	2149	2279	2575	2683	2799	*2923*
Labour force	380	412	451	479	596	667	683	*787*
Employed in Israel	84	70	75	76	77	119	135	*100*
Unemployed	24	62	81	114	128	86	79	*295*
				Current US$				
GDP per capita	1320	1274	1448	1498	1508	1549	1651	*1364*
GNI per capita	1617	1553	1681	1703	1706	1868	1965	*1557*
				Per annum growth (current prices)				
GDP per capita		-4	14	3	1	3	7	*-12*
GNI per capita		-4	8	1	0	9	5	*-17*
				Per cent				
Savings-investment / GNDY	-9	-14	-19	-22	-30	-23	-25	*-33*
Trade balance / GDP	-35	-37	-45	-54	-53	-59	-56	*-65*
Unemployed / labour force	6	15	18	24	22	13	12	*37*

Sources: Data for 1993 are calculated from Israel Central Bureau of Statistics, *Statistical Abstract of Israel*, 1995; All data for 1994-1999 from Palestinian Central Bureau of Statistics (PCBS), *National accounts*, 1994-1999, while some 1999 indicators are calculated according to previous years' averages; Data for 2000 are UNCTAD estimates based on preliminary data for 2000 published by PCBS in February 2001, taking into account the impact of the crisis.

9. Moreover, Palestinian exporters operate under difficult market access conditions, which have effectively nullified the potential benefits offered by the preferential trade agreements negotiated with various partners since 1994. This has impeded trade diversification, which has restrained further the expansion of supply capacity.[10] Trade also has been hindered by Israeli border closures and measures affecting the movement of goods and labour. This deprives the economy of labour income from Israel and discourages trade with the rest of the world. The impact is both immediate and longer-term, given the time needed by the economy to recover, as witnessed in 1998-1999 as compared to 1996-1997.

B. A widespread economic crisis with far-reaching repercussions

10. Developments in the Palestinian territory during the period since October 2000 covered by this report have been dominated by a range of unprecedented restrictions on flows of goods, labour and financial resources, generating a widespread economic crisis with immediate and longer-term implications for economic development. Restrictions on movement were especially pronounced in the case of closure of international borders between the Palestinian territory and Israel, Jordan and Egypt, effectively isolating the Palestinian territory from the rest of the world. Border closures were in effect for three-quarters of the working days during the period 1 October 2000 - 31 January 2001 alone, while Gaza International Airport was closed for half of the working days during the same period.[11]

11. The flow of goods was also hampered between periods of full closure, with tightened security arrangements at commercial crossings limiting the working hours and the number of truckloads allowed to cross the borders. Flows of goods and labour were further restricted by internal closure measures, whereby roads to cities and villages in the West Bank and Gaza Strip were permanently or temporarily sealed off for most of the period, creating 54 fragments of isolated areas under Palestinian Authority (PA) jurisdiction. Meanwhile, the failure to operate the safe passage between the West Bank and Gaza Strip (except for a brief period in 1999-2000) undermined the tenuous economic integrity of the West Bank and Gaza Strip, which the interim period accords were intended to guarantee.[12]

12. The impact of border closures and other restrictions on movement was compounded by economic sanctions applied for different periods since late 2000. Most notable in this respect was withholding of indirect tax and customs revenues owed by Israel to the PA, estimated to have reached $190 million by April 2001.[13] Trucks and commercial shipments destined for Palestinian importers via Israeli ports were delayed or withheld for security and other controls for indeterminate periods. Producers and consumers also faced repeated shortages of raw materials, such as cement and chemicals, as well as fuel supplies, cereals and other bulk imports that are sensitive to border restrictions or prohibitions on entry to the territory.[14]

13. These measures have taken a mounting toll on the Palestinian economy, depriving it of its main sources of income. The economy's resources have been drained, with losses estimated at between $2–3 billion in the first six months alone, according to different sources.[15] This includes losses accrued from declining labour income from Israel (accounting for around 20 per cent of total losses) and from declines in most domestic sectors. In addition, indirect losses (destruction of infrastructure) are estimated at well over $200 million for the same period.[16] With domestic output cut by almost half in October-December 2000, per capita GNI is estimated to have declined by around 20 per cent in 2000 as compared to the

previous year.[17] In a survey of economic losses undertaken by the Palestinian Central Bureau of Statistics (PCBS) covering the period October-November 2000, manufacturing and construction activities were shown to have incurred the highest losses, together accounting for about 40 per cent of the decline in GDP.

14. The rate of unemployment grew rapidly and sharply. Some 300,000 Palestinians, equivalent to around two-fifths of the labour force, were reported to be jobless by mid-2001. Poverty indicators grew sharply during the period 1 October 2000 –31 January 2001, with more than 1 million people, or one third of the Palestinian population, living below an estimated poverty line of $2.10 per day.[18] When measured in terms of the deterioration of household income, it is estimated that the income of 64 per cent of Palestinian households had fallen below $400 per month (for a household of six).[19] The economy has fallen into growing indebtedness, with the private sector experiencing a liquidity crunch, while the PA budget deficit is expected to expand to $524 million by the end of 2001, or around 25 per cent of the year's projected emergency budget.[20]

15. Key members of the donor community were quick to respond to urgent needs generated by the crisis, providing budget support and implementing emergency projects for assisting the disadvantaged and unemployed.[21] The Arab States Summit Meeting in October 2000 decided to raise $1 billion in relief and aid, though the disbursement of committed funds has been insufficient to respond to the scale and scope of needs. While around $700 million were pledged by mid-2001, $270 million was disbursed, partially in the form of a "soft" loan, to provide budgetary support for a nine-month period, in addition to at least $40 million granted for emergency assistance. Meanwhile the European Union granted 87 million euros to help the PA meet urgent expenses, and the World Bank approved a grant of $12 million to provide employment for Palestinian workers previously working in Israel. These important support measures were paralleled by initiatives by donors and international organizations, entailing emergency job creation, food aid, social services and budgetary support.

16. While it is clear that the costs of the crisis are significant, less apparent is how the economy will recover and how long that will take.[22] The United Nations Special Coordinator in the Occupied Territories stated as early as December 2000 that "what was achieved in progress in the living conditions of the Palestinians over the last three years has been completely destroyed over the last two months".[23] The crisis diverted the donor community's attention away from development projects to emergency job creation, resulting in the suspension of infrastructure and long-term technical assistance projects that were designed to improve the economy's supply capacity. Restrictive measures, meanwhile, aggravated structural weaknesses, threatening further deterioration in living conditions. Key investment projects were suspended, given the heightened political and economic risks.

17. Tourism, transport and related services, highly sensitive to such turbulence, faced particularly significant pressures after several years of sustained new investment in the sector. Meanwhile agricultural performance deteriorated further, with farmers forced to leave the harvest in the fields to avoid incurring additional costs.[24] Agricultural exports registered sharp decline at a time when increased exports were needed to help finance investments to develop the sector's productivity. This, in turn, impedes the structural transformations required for reversing chronic imbalances within the economy, in particular its heavy reliance on external resources for stimulating growth and hence its vulnerability to shocks.

18. The capacity of the PA to address the development needs of the Palestinian people, which was limited to begin with, has been further curtailed. Its ability to sustain social services is over-burdened, with resources re-allocated towards emergency projects. By mid-April 2001, the PA had incurred $630 million to cover the costs associated with ameliorating heath, social and education services, provision of food stocks for the poor and the rehabilitation of damaged infrastructure and other losses.[25] Meanwhile, public debt obligations are rising steadily, with loans accounting for a growing share of aid. Considering the declining trend of donor aid, the sustainability of development efforts is further threatened. Confronted with weakening terms of trade for labour-intensive products and poor market access conditions for exports, the task of developing the Palestinian economy appears more formidable than ever.

C. Prospects for sustained development of the Palestinian economy

19. As illustrated above, PA economic policy-makers are faced with daunting challenges immediately and in the coming years. These will have to be addressed regardless of the ultimate impact of the 2000-2001 Palestinian economic crisis or of the exact point in time at which a semblance of normalcy is re-established in economic activity and relations with Israel and the rest of the world. Both the structural and the 'transitional' pressures facing the Palestinian economy, which the preceding paragraphs have outlined, are by now well known to the PA and to the international community. While the diagnosis and analysis of these pressures is a necessary prerequisite for effective policy action, of greater concern now is the swift elaboration of a recovery and reconstruction programme in the context of a more sustained economic policy formation process. It is not in the scope of this report to prescribe solutions or to predict how the Palestinian economy will fare in the future. Indeed, there are few, if any, surprise or secret formulae to follow: the analyses of development challenges and policy options undertaken by Palestinian and international sources, including UNCTAD, have addressed many of the sectoral and policy angles of this question. The PA certainly is aware of the range of policy measures to which it can resort in the current circumstances and the economic policy decisions it must consider as it seeks to build a "national economy".

20. Foremost in this regard will be designing and implementing short-term policies and programmes to help the economy absorb the latest shock and begin to recover. In the first instance, considerable social relief and welfare support is required to help those households rendered destitute by the crisis. Certainly the removal of restrictions imposed over the past year on the trade and labour flows will alone provide an important impulse to generate the necessary income and production to stimulate aggregate demand. But this will not be sufficient to jump-start investment and promote exports, both of which will continue to be highly vulnerable to the structural weaknesses outlined above. Nor can the emergency job-creation programmes already initiated have a major impact in reducing Palestinian unemployment, especially without a return to previous levels of employment in Israel.

21. Hence, more vigorous, targeted efforts will be required, aimed at encouraging the creation of viable employment opportunities in the domestic economy, beginning with those sectors which had to release labour during the crisis, as well as other branches whose potential contribution to growth, exports and job creation had already been established though not yet demonstrated owing to inadequate investment and uncertain export marketing prospects. The role of international agencies, along with the renewed commitment of donors, will be instrumental in providing the PA with the technical advice, training and financial

support needed to launch a credible programme to steer the economy onto a path of sustained growth.

22. Already in 2000, in close collaboration with the International Monetary Fund, the PA had begun to plan for an "Economic Policy Framework", supervised by a Higher Council for Development, to ensure that "economic policies over the coming years make a positive and significant contribution to overcoming the challenges facing the Palestinian economy".[26] While the developments of the past year forced an interruption of implementation of this important policy-making exercise, the PA will need to soon pick up where it left off. In a sense, the 2000-2001 crisis has provided the PA with an opportunity to re-focus and reinvigorate this exercise, taking into consideration both structural trends and more recent directions. As noted in an assessment by UNCTAD of economic achievements and pending tasks of the interim period, completed on the eve of the crisis:[27]

> It is now widely accepted that, as the PA prepares to assume national government responsibilities, a far-reaching policy statement is needed. This would help shape institution-building efforts, reform measures and reconstruction programmes and guide strategic development policy elaboration. It would also equip policy-makers with studied and quantifiable assessments of the long-term economic and financial costs and benefits of pursuing an alternative development path. Furthermore, it would be indispensable as a reference tool for economic negotiations at bilateral, regional or global levels.

23. Until the situation has stabilized enough to permit PA policy-makers to again concentrate on strategic policy prerequisites, it is only to be expected that attention will remain focused on the immediate economic and social needs generated by the crisis. Nevertheless, following a decade of economic crises and recoveries, high expectations and unmet promises, the recent crisis has in fact reaffirmed the strong interdependence between development and peace. Just as the crisis has highlighted that sustained development of the Palestinian economy is doubtful under current circumstances or those that prevailed during the interim period, so will a persistent Palestinian development effort help to create the conditions on the ground to foster long-term stability and peace. Indeed, recent quantitative research[28] undertaken by the UNCTAD secretariat has demonstrated the possibility and viability of redressing the imbalances and distortions reviewed above, which have crippled the Palestinian economy for decades. In the light of the discouraging developments of the past year reviewed above, this concluding reference to that exercise aims to reassert confidence in the realistic hopes for a better development future for the Palestinian people, after many years of deprivation.

Chapter II

UNCTAD'S TECHNICAL ASSISTANCE TO THE PALESTINIAN PEOPLE

A. Framework, objectives and completed activities 1997-2001

24. In accordance with the United Nations medium-term plan for 1998-2001, the technical assistance provided by UNCTAD to the Palestinian people has evolved into a multifaceted and integrated programme of technical cooperation, drawing upon the expertise of the secretariat as a whole. When UNCTAD embarked on activities of technical assistance to the PA in 1995-1997, the focus of technical assistance was determined by the priority needs identified by the PA at the early stage of its reconstruction and development programme. However, as the range of technical assistance needs has since widened, the secretariat's expertise and corresponding capacity to respond effectively has also grown, while PA capacities to absorb such assistance has improved. This was recognised in paragraph 167 of the Plan of Action adopted at UNCTAD X, which welcomed the secretariat's assistance to the Palestinian people and called for it to be intensified. Accordingly, by 2000, UNCTAD's activities had assumed a clearer programmatic focus, clustered under four headings:

- Trade policies and strategies;
- Trade facilitation and logistics;
- Finance and development; and,
- Enterprise, investment and competition policy.

25. On the basis of analytical and empirical investigation in each of these areas and specific technical assistance needs identified by the PA, the secretariat has been able to design and deliver targeted technical assistance in areas of its competence. In some areas, UNCTAD technical assistance not only builds capacities, but actually creates new capacities to address new problems faced by the PA. In each of these programme areas, advisory services, group training and other modalities of technical assistance are deployed with the overall aims of:

- Bolstering PA policy-making, managerial and institutional capacities to enhance performance of the trade, public finance and related services sectors; and
- Contributing to the creation of an appropriate enabling environment to mobilize the development potentials of the Palestinian private sector.

26. As shown in table 2, by mid-2001 five projects had been implemented and operational activities were ongoing under three others, while start-up activities in three new projects were about to commence. By 2001, the secretariat had secured 65 per cent (almost $2 million) of the total funds required to implement all UNCTAD technical assistance proposals prepared since 1997. This marks a significant improvement over previous years, as new PA requests for assistance have emerged and donor support for UNCTAD's technical assistance activities has grown. Around $1 million in extrabudgetary resources is still sought for activities in two ongoing (partially funded) projects and 10 proposed (unfunded) projects requested by the PA, including urgent technical assistance prompted by the recent crisis (see section C below).

27. While the secretariat was poised in mid-2000 to commence implementation of three major new development projects, this expected intensification of assistance was abruptly suspended owing to the deterioration in the field situation as from October. In addition to postponing commencement of the three above-mentioned projects, other advisory services and training activities were halted. Accordingly, actual expenditures on technical assistance projects in 2000-2001 could not keep up with the growth in pledged resources. These developments highlight the extent to which UNCTAD's contribution in this area can best be realised in normal and stable conditions within the context of an integrated and systematic approach and well co-ordinated with related international programmes. While the situation over the year rendered the provision of technical assistance more complicated and enforced a more prudent pace, modalities were identified to permit a gradual resumption of work in several projects in 2001, especially those for which resources already exist.

B. Major operational activities under way and priority proposed activities

28. UNCTAD's technical assistance activities for the PA programmed prior to the recent crisis resumed in mid-2001, with project activities under way in each of the four programme areas mentioned above and four other proposed priority projects yet to commence, pending availability of resources. The following paragraphs briefly review progress in these areas, with additional information on completed and ongoing projects presented in table 2.

1. Trade policy and strategy

29. The secretariat was able to continue advisory services and training activities, in Geneva and in the field, under two closely related projects, namely *Training programme in international commercial diplomacy Phase II* and *Bilateral and regional trade arrangements*. In this respect, expert briefings and high-level consultations were arranged by the secretariat for a PA delegation in Geneva in February and May 2001 regarding Palestinian preparations for greater integration into the multilateral trading system. Furthermore, UNCTAD commercial diplomacy training materials are being adapted by PA trainers for use in series of UNDP-funded workshops for the Palestinian private sector, to be conducted by PA, UNCTAD and Arab experts. UNCTAD has also been requested to conduct a field training session for a PA Technical Advisory Team on issues related to trade in services. Both activities are programmed for the summer of 2001, circumstances permitting. Meanwhile, advisory services on regional trade issues, bilateral trade policy and trade in services are also continuing during 2001.

30. Under this programme heading, work on two other priority projects has not been able to begin owing to lack of funding. The PA has requested assistance in *Transit trade and transport*, in particular with regard to preparing transit trade framework agreements with immediate neighbours, an area that has increased in significance in the wake of the recent crisis. So far UNCTAD has only been able to offer limited advisory services. A project to assist the PA in *International procurement of strategic food commodities* is also pending, notwithstanding the increasing problems faced by the PA in this area and the recent announcement of a major PA project to establish grain silos in three sites in the territory.

2. Trade facilitation and logistics

31. Significant progress was made in preparing for new concrete assistance by UNCTAD in this sector, with approval of an *ASYCUDA + + Preparatory Assistance Project for the PA*.

The project is to be funded by the Palestinian Economic Council for Reconstruction and Development (PECDAR), which administers the World Bank Technical Assistance Trust Fund (TATF) for the PA. Activities in 2001 are the first of a three-phase capacity building project, during which UNCTAD will provide the PA with comprehensive training in the essential elements of customs modernization programmes, aimed at building the capacities of managers and staff. This will include training on information technology and automation through the ASYCUDA++ system. Moreover, concrete proposals will be made for the implementation of simplified customs procedures adapted to an automated environment, as well as required changes in the related legislative and regulatory framework. A prototype version of ASYCUDA++ will be built, installed and tested at Customs Headquarters.

32. Another important project proposal in this sector aims to strengthen *Managerial and institutional capacities for Gaza Seaport*, including helping to mobilize the Seaport Authority (SpA), assessing legal issues and preparation for TRAINMAR, updated in late 2000 following an UNCTAD expert mission to Gaza. Though construction of the Seaport halted in October 2000, institutional and legal preparations were due to resume in mid-2001, prompting a request by the SpA that UNCTAD proceed with efforts to secure funding for technical assistance activities in this area, including a technical assessment of transitional maritime transport alternatives for the PA.

3. Finance and development

33. One area of UNCTAD's technical assistance that is helping the PA to create new capacities to meet the challenge posed by a growing public debt is the project for installing the *Debt Monitoring and Financial Analysis System (DMFAS)*, which was due to commence in October 2000. Though field activities could not be launched as planned, initial work was completed on the institutional design of the Public Debt Directorate of the Ministry of Finance and preparations for a study on debt strategies and policies. Meanwhile, it was agreed with the PA to re-phase the project work plan to permit full implementation as of summer 2001. This project is of special interest because of the still-emerging PA public debt position and the synergies possible with other DMFAS projects in the region through sharing of expertise and development of an Arabic-language version of DMFAS 5.2. As DMFAS becomes operational with the PA, its linkages to other financial and economic analysis systems (including the secretariat's *Palestinian macroeconomic simulation framework* project, which is still unfunded) could further develop abilities to manage financial resources and elaborate economic policies.

4. Investment, enterprise and competition

34. UNCTAD's technical assistance activities in these areas were to have entered a new phase in 2000 with commencement of the project to support *Small and medium-sized enterprise (SME) development (EMPRETEC)*. Though a project document was agreed with the PA counterpart (Palestinian Banking Corporation) in mid-2000, project activities, which are highly dependent on stable field conditions, could not be initiated. However, the recent crisis has rendered the contribution of this project, to be closely coordinated with other bilateral and multilateral programmes in the area of SME development, even more pertinent. Not only will it help to create new capacities and opportunities for SME entrepreneurs, who were especially hard-hit by the crisis, but it will also help to build a solid client basis for the

development finance funds for this sector being provided increasingly by donors through the local banking system.

C. UNCTAD/ITC response to PA economic crisis and inter-agency coordination

35. The need to reorient the Palestinian economy towards more balanced relations with Israel was pertinent even prior to the recent crisis, given the Palestinian trade sector's disappointing performance record over the past few years. As shown in chapter I, the crisis cast new doubts on the framework and underlying premises of trade and economic policy since 1994. And the course of economic cooperation to which the two parties had been committed is under careful scrutiny by both sides, in line with the evolving situation on the ground. Experts and policy makers are confronted with the need to reconsider the existing trade regime in terms of its capacity to respond to development priorities. The acceleration of the twin processes of globalization and liberalization, the declining terms of trade for labour-intensive products, and the poor market access conditions facing developing countries pose major challenges with significant implications for the development prospects of the Palestinian economy.

36. Within this context of reappraisal and reorientation, in December 2000 the PA requested urgent, coordinated technical assistance from UNCTAD and the UNCTAD/WTO International Trade Centre (ITC) in responding to immediate pressures while planning for viable alternatives to present economic and trade arrangements. Consultations between the PA, UNCTAD and ITC identified a number of specific areas for assistance which fall within the areas of technical competence and work programmes of both agencies. Proposed technical assistance activities are clustered within three areas: trade logistics and infrastructure, market diversification and trade support measures; and trade policy support. These areas for assistance reflect new, immediate needs posed by the current situation and the challenges posed by the emergence of a distinct Palestinian economy; they also respond to the short and long-term imperatives of diversifying and facilitating Palestinian trade.

37. Technical assistance from UNCTAD and ITC proposed at this stage would aim to produce within a short timeframe of six months in-depth appraisals of policy options and technical choices, policy and technical action plans, as well as project documents for follow-up technical or capital assistance projects. In order to address these urgent needs and reply to the PA appeal in a comprehensive and sustained manner, it is estimated that $405,000 would be required in extrabudgetary resources. While UNCTAD/ITC assistance can play a catalytic, technical role in preparing the way for some major projects considered as prerequisites for the reorientation and restructuring of Palestinian external trade, it would be up to the PA and donors to direct this assistance into operational projects and programmes. In early 2001, the Secretary-General of UNCTAD and the Executive Director of ITC addressed a request to bilateral donors and multilateral funding agencies for financial support to enable the PA to implement these projects, but no contributions have been forthcoming.

38. Meanwhile, the secretariat has intensified its contribution to inter-agency coordination and harmonization. Close working relations with related efforts and concerned international agencies are a built-in feature of all UNCTAD technical assistance activities and have been proven to create synergies and benefits for all partners. The secretariat made substantive contributions to several coordination and consultation meetings in which it participated during the period, including an Islamic Development Bank meeting on strengthening the

Palestinian economy (Cairo, 28-29 January, 2001), the United Nations Seminar on Assistance to the Palestinian People (Vienna, 20-21 February 2001) and the annual United Nations Inter-Agency Meeting (Gaza, 27-28 June 2001).

Table 2

UNCTAD programme of technical assistance to the Palestinian People, 1997-2002 (at 30/6/2001)

Programme/Project (Partially funded and unfunded projects are indicated in italics)	PA Counterpart	Duration	Funding status (US$ - excl. AOS)			Source of Funding*	Implementation Status
			Total Budget	Pledges	Expenditures		
TRADE POLICIES AND STRATEGIES							
TPS1: Training programme in international commercial diplomacy: PHASE I	Ministry of Economy and Trade	1998-1999	70,000	70,000	70,000	UNITAR UNDP, UNCTAD	Implementation completed 1999: three group training workshops.
TPS2: Training programme in international commercial diplomacy: PHASE II	Ministry of Economy and Trade	2000-2001	110,000	65,000 37,000	25,000 -	United Kingdom UNDP	Implementation commenced 2000; local training workshops in 2001
TPS3: Bilateral and regional trade arrangements	Ministry of Economy and Trade	1998-2000	90,000	35,000 13,000	35,000 -	UNCTAD UNDP	Expert and advisory services 1998-1999; new activities on regional issues 2001.
TPS4: Transit trade and transport	Ministry of Economy and Trade	2000-2001	30,000	3,000	3,000	UNCTAD	Advisory/expert services and group training workshop; funding sought.
TPS5: International procurement of strategic food commodities	Ministry of Supply	2001-2002	103,000	-	-	-	Revised project proposal approved by PA; donors approached.
TRADE FACILITATION AND LOGISTICS							
TFL1: Strengthening operational capacities in customs administration	Ministry of Finance	1997-1999	20,000	20,000	20,000	UNCTAD	Assessment missions 1997 and ASYCUDA presentation 1999.
TFL2: PA sub regional cooperation with Egypt and Jordan: PHASE I	Ministry of Economy and Trade	1998-1999	110,000	110,000	110,000	UNDP	Implementation complete 1999; follow-up advisory services provided 2000.
TFL3: Strengthening trade efficiency: Trade Point Palestine Ramallah	Ministry of Economy and Trade	1999-2000	170,000	60,000 30,000	60,000 30,000	Italy UNDP	TPPR operational 2000; Gaza follow-up unfunded.
TFL4: PA sub regional cooperation with Egypt and Jordan: PHASE II	Ministry of Economy and Trade	2001-2002	102,000	-	-	-	Follow-up project proposal; funding sought.
TFL5: Managerial and institutional capacities for Gaza Seaport, legal issues, TRAINMAR	Gaza Seaport Authority	2001-2002	82,000	-	2,000	UNCTAD	UNCTAD Port mission proposal approved; training programme under consideration. Funding sought.

Programme/Project (Partially funded and unfunded projects are indicated in italics)	PA Counterpart	Duration	Funding status (US$ - excl. AOS)			Source of Funding*	Implementation Status
			Total Budget	Pledges	Expenditures		
TFL6. Preparations for ASYCUDA – Phase I	Ministry of Finance	2001	385,000	385,000	-	PECDAR/ TATF	Project document for preliminary phase approved; funding secured.
TFL7 Human resource development. TRAINFORTRADE	Ministry of Economy and Trade	2002	-	-	40,000	UNDP	Initial activities in 1998; new needs assessment pending.
TFL8. Preparations for ASYCUDA – Phases II-III	Ministry of Finance	2002-2003	-	-	-	-	Full installation to be programmed and costed under Phase I; funding sought.
FINANCE AND DEVELOPMENT							
FD1. Strengthening capacities in debt monitoring and financial analysis	Ministry of Finance	2000-2001	531,000	531,000	20,000	Norway	Project document signed, resources allocated end-2000, start-up delayed.
FD2. Strengthening capacities of the domestic insurance sector	Ministry of Finance	2001	150,000	-	-	-	Advisory services 1997; new assessment mission and proposal update pending.
FD3. Palestinian macroeconomic simulation framework	Ministry of Economy and Trade	2000-2001	50,000	-	-	-	Advisory services and group training workshop, funding sought.
INVESTMENT, ENTERPRISE AND COMPETITION							
IEC1. Feasibility of Nablus industrial estate	Ministry of Industry	1997-1999	260,000	260,000	230,000	UNDP	Implementation completed 1999.
IEC2. Support for small/medium-size enterprise development (EMPRETEC)	Palestinian Banking Corporation	2001-2002	300,000	300,000	-	Italy	Project document approved; start-up delayed until 2001.
IEC3. Investment promotion policies	Ministry of Economy and Trade	1998-2000	40,000	-	10,000	UNDP	Participation of PA experts in regional symposia; new advisory services pending.
IEC4. Palestinian competition policy	Ministry of Economy and Trade	2001-2002	-	-	-	-	Assessment mission postponed.
PALESTINIAN TRADE SECTOR URGENT TECHNICAL ASSISTANCE (WITH UNCTAD/WTO ITC)							
Nine technical assistance projects in three areas: trade logistics/infrastructure, market diversification and trade support measures; and trade policy.	Ministry of Economy and Trade	2001-2002	405,000	15,000 10,000	- -	UNCTAD	UNCTAD/ITC request for funding to donors January 2001. UNCTAD Trust Fund and RB resources allocated for three priority activities.
Total: 21 projects	Six counterparts		3,008,000	1,944,000	653,000		

Notes

[1] In accordance with the relevant General Assembly resolutions and decisions, references in this report to the occupied Palestinian territory pertain to the Gaza Strip and West Bank, including east Jerusalem (for purposes of brevity, the term "Palestinian territory" is also used as appropriate); the term "Palestine" used in this report refers to the Palestine Liberation Organization, which established the Palestinian Authority (PA) following the 1993-1994 peace accords with Israel. Unless otherwise mentioned, data on the Palestinian economy in this report apply to the Gaza Strip and West Bank, excluding east Jerusalem.

[2] Palestinian Economic Policy Research Institute-MAS, *MAS Economic Monitor*, No. 7, 2000.

[3] UNCTAD's observations at previous stages in the development of the Palestinian economy could very easily refer to the 2000-2001 crisis. Ten years ago, the secretariat report to the Trade and Development Board on the impact of the Gulf crisis identified factors that have continued over the decade to foil concerted Palestinian and international efforts to sustain the course of growth and development. See UNCTAD, "Recent developments in the economy of the occupied Palestinian territory" (TD/B/1305), Geneva, 1991, paras. i, ii, 64.

[4] As reviewed in secretariat reports to the Trade and Development Board since 1991.

[5] Minimal capital investment and employment also characterize newly registered companies; small private companies account for over half of total newly registered companies. The total value of PA-"approved investment projects" stood at $298 million by 1999. Once executed, they would create around 3,000 new jobs. *UNSCO Report*, Gaza, UNSCO, Spring 2000.

[6] The growth in industry's share of GDP is partly due to an upwards re-estimation by PCBS of the contribution of industry after 1994 as compared to Israeli data for the pre-1994 period.

[7] See UNCTAD, "Prospects for sustained development of the Palestinian economy: strategies and policies for reconstruction and development" (UNCTAD/ECDC/SEU/12), Geneva, 21 August 1996.

[8] In 1999, net factor income was equivalent to 20 per cent of GDP, only slightly reduced from 22 per cent in 1993. In addition to increasing the economy's vulnerability to external shocks, the weak contribution of domestic sources to growth of national income aggravates the "lack of articulation between sources of income and the uses of that income, on the one hand, and between the supply of and demand for goods and services on the other". See UNCTAD, "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, 1990-2010: a quantitative framework" (UNCTAD/ECDC/SEU/6), Geneva, 11 November 1994.

[9] These have included joint ventures pooling both private and public sector assets, sustained by selected import monopolies, exclusive agency and franchise arrangements, as well as lucrative short-term commercial deals.

[10] One example is the case of the Interim Association Agreement with the European Union offering Palestinians limited quotas well below the potential for exports, especially with regard to agricultural produce. Palestinian Authority Ministry of Finance, "A comprehensive report on the total losses of the Palestinian territories since the outbreak of the Al-Aqsa Intifada on 28/9/2000 until 15/4/2001", Gaza, April 2001 (in Arabic).

[11] In 1998, closure affected 14.5 days, resulting in a loss of 5.2 per cent of working days, as compared to a 20.5 per cent loss in 1997. See "Economic and Social Conditions in the West Bank and the Gaza Strip", a report by UNSCO, Spring 1999, Gaza.

[12] The "Protocol on Economic Relations" signed in 1994 by Israel and Palestine "establishes the contractual agreement that will govern the economic relations between the two sides and will cover the West Bank and the Gaza Strip during the interim period" (Article I.1).

[13] Palestinian Authority Ministry of Finance, Gaza, April 2001, op.cit.

[14] The number of Jordanian cement shipments to the territory has been reduced to around 20,000 from 75,000 tons per month since November 2000, while energy and fuel supplies were suspended for one week during the months of February and June 2001. Palestinian Centre for Human Rights (PCHR), "Closure Update", No. 29, Gaza, 16 December 2000.

[15] Numerous PA sectoral and aggregate estimates of economic losses have been published for different reference periods, using different methodologies. Lower range estimates based on PCBS field survey data appear to be the most credible.

[16] PCBS, "Direct losses of the Palestinian economy due to the Israeli siege", December 2000, and UNSCO, "The impact on the Palestinian economy of confrontations, mobility restrictions and border closure, 1 October — 31 January 2001", Gaza, February 2001. Some sources put total losses well above the mentioned figure. See Palestinian Authority, Ministry of Finance, Gaza, April 2001, op.cit.

[17] UNSCO, Gaza, February 2001, op.cit.

[18] See ibid. and World Bank, "The impact of prolonged closure on Palestinian poverty", Gaza, 1 November 2000.

[19] See PCBS "Impact of Israeli measures on the economic conditions of Palestinian households", April 2001.

[20] *Al-Hayat-al-Jadidah*, 30 March 2001, Jerusalem (in Arabic), and Palestinian Liberation Organization (PLO), "Crisis in faith", second submission to the Sharm El-Sheikh Fact-Finding Committee, 30 December 2000.

[21] World Bank, "US$12 million grant from the World Bank in an effort to address the current economic crisis in West Bank and Gaza", Press release, Washington D.C., 6 December 2000; European Commission Representation Office West Bank and Gaza Strip, "Commission authorises special payment to Palestinian Authority", Press release, Jerusalem, 8 November

2000; *Al-Quds*, "The Arab League pledges $240 million in urgent assistance for the Palestinian Authority", Jerusalem, 29 March 2001 (in Arabic); and, *Al Sharq al Awsat*, "Report on Arab donor states contributions to Al-Aqsa, Intifada funds", London, 12 April 2001 (in Arabic).

[22] The Palestinian Authority Minister of Economy of Trade estimated in early 2001 that the economy would take two to three years to regain the performance it had attained in mid-2000; quoted in *Al-Quds Al-Arabi*, London, 25 January 2001 (in Arabic).

[23] Haaretz, December 2001.

[24] Palestinian farmers left strawberries on the plants during the previous harvesting season, while exports did not exceed 850 tons out of 2,000 tons designated for external markets; in PCHR, "Closure Update", No. 33, Gaza, 22 February 2001.

[25] Palestinian Authority Ministry of Finance, Gaza, April 2001, op.cit.

[26] Palestinian Authority and International Monetary Fund, "West Bank and Gaza economic policy framework – progress report", 31 May 2000, p.4.

[27] UNCTAD, "The Palestinian economy: achievements of the interim period and tasks for the future" (UNCTAD/GDS/APP/1), Geneva, 19 January 2001, p. 35.

[28] UNCTAD, "Prospects for sustained development of the Palestinian economy: macroeconomic simulation framework (MSF)" (UNCTAD/GDS/APP/3), (Forthcoming).